



Treasury Inspector General for Tax Administration

EMPLOYEE PLANS NONCOMPLIANCE REFERRALS ARE PRODUCTIVE SOURCES OF WORK, BUT PROCESSING CONTROLS NEED TO BE IMPROVED

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Highlights

Highlights of Report Number: 2007-10-185 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

Referrals were a productive source of Employee Plans (EP) function examinations because they had among the highest total additional assessments and average assessment per return. These assessments provide a means for bringing pension plans back into compliance with the tax laws and avoid jeopardizing the tax-exempt status of the plans or taxpayers' retirement savings. However, there is still a risk that potentially productive referrals are not being examined, and there were delays in processing and evaluating a large number of referrals. Improved controls in these areas will provide greater assurance that pension benefits will be available when needed by plan participants who are depending on them.

WHY TIGTA DID THE AUDIT

The objective of this review was to determine whether the EP function's process for controlling and evaluating referrals of noncompliance ensured the most productive referrals were selected by the EP Classification office for examination. The Director, EP, requested that TIGTA assess this process.

WHAT TIGTA FOUND

Overall, referrals demonstrated favorable results when compared to other examination sources during Fiscal Years 2004 through 2006. For example, the change rate for referral cases was between 18 percent and 30 percent higher than that for EP function examinations as a whole.

EP function management has made improvements to enhance referral processing. Starting in February 2007, EP function management directed that referrals be distributed as part of EP function groups' regular workload in lieu of being considered discretionary work. In addition, a new project for low-dollar referrals sent

from the Department of Labor was implemented. These referrals were previously closed without action because of the low dollar amount but are now processed through correspondence contacts that usually result in additional tax assessments.

While EP function management made improvements, additional actions could be taken to improve key controls used in processing referrals. These include 1) providing better assurance that potentially productive referrals are being examined, 2) ensuring classification specialists and Examination function field groups timely process referrals, and 3) improving feedback to the Department of Labor on the quality of referrals.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, EP, 1) require group managers to adequately document the reason for closing a referral without an examination; 2) ensure referrals are timely processed; 3) ensure the Internal Revenue Service (IRS) is meeting the requirement to provide feedback to the Department of Labor on the results of the referrals closed by EP Examination function groups; and 4) monitor key performance indicators, such as total closures, to determine whether changes in the method of distributing referrals have increased the volume of referrals examined.

In their response to the report, IRS officials stated they agreed with our recommendations and provided planned actions to address them. These actions include reviews and tracking mechanisms to ensure Examination function field staff adhere to all documentation and timeliness requirements. For example, the EP Classification office manager plans to complete quarterly reconciliation reviews of the referral database and conduct timely workload reviews of assigned inventory. In addition, the EP function plans to include statistical data on referrals in regular quarterly reports, which will allow for monitoring the progress of referrals worked using standard business measures.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200710185fr.pdf>.

Email Address: Bonnie.Heald@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-927-7037